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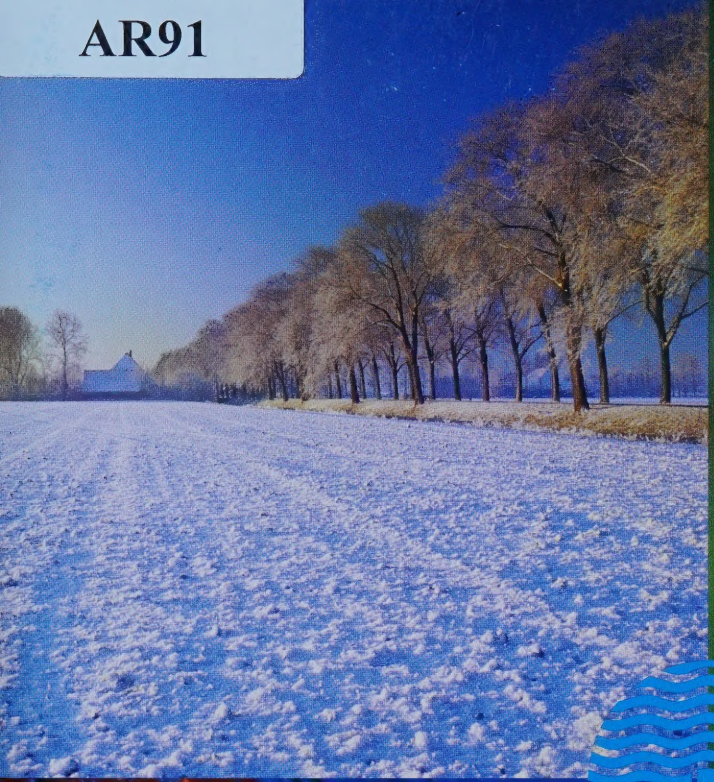
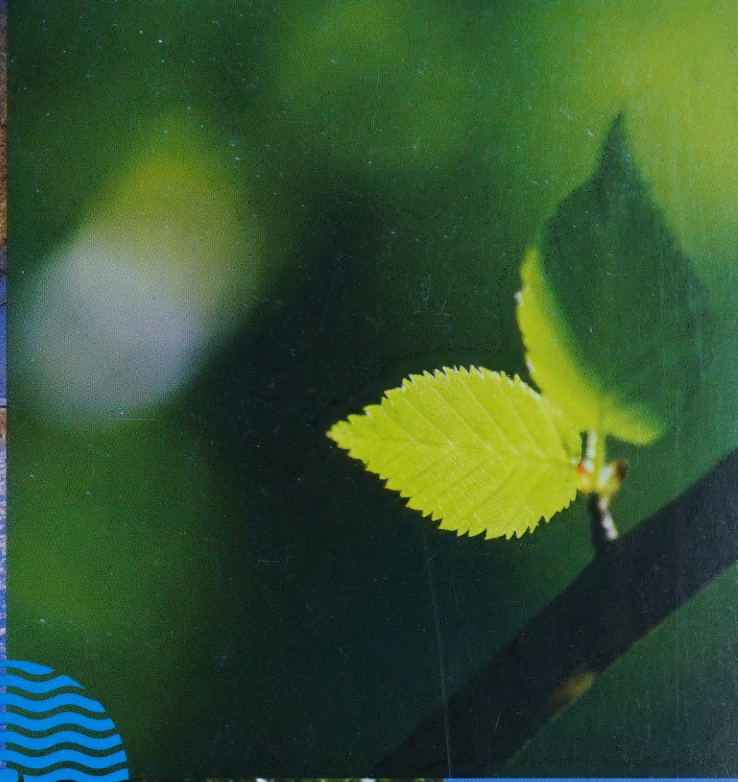




Wawanesa Insurance Annual Report 2008

Wawanesa

Earning Your Trust Since 1896

SUBSIDIARY COMPANIES

THE WAWANESA LIFE INSURANCE COMPANY

200–191 Broadway
Winnipeg, Manitoba R3C 3P1

100% Owned
Book value of shares $67,780,000

WAWANESA GENERAL INSURANCE COMPANY

9050 Friars Road
San Diego, California 92108

100% Owned
Book value of shares $146,158,000

President's Report

The year 2008 will go down in economic and financial history as a very remarkable year. It was a year that included a near-collapse of the world banking system which only survives as a result of unprecedented financial support from national governments around the world. It was a year that will likely be regarded as the start of the most significant world-wide recession since 1929, the depth and duration of which still remains to be seen. It was the year of the greatest drop in stock market value since 1929 and it is not at all clear if the bottom has been reached or when a recovery in value might occur.

2008 will also be remembered as a remarkable year at Wawanesa. Our investment portfolio was significantly impacted by the economic and financial events mentioned above, but in addition, we experienced poor results from our insurance operations. In spite of this, our Company remains financially strong. Our capital ratios have declined somewhat but are still well in excess of the level required by the Office of the Superintendent of Financial Institutions Canada. This is a testament to our very strong capital position and prudent investment policies. For these we can thank the long term perspective taken by our Board of Directors and previous generations of management. We remain very capable of moving forward with our plans for growth and development.

Our two subsidiaries, Wawanesa Life and Wawanesa General, were also impacted by the financial market situation. In order to demonstrate full support for both companies and ensure strong capital positions in each, Wawanesa Mutual provided additional capital contributions during the year to both subsidiaries.

In spite of the financial and economic turbulence, our policyholders can rest assured that we have the continuing financial strength to settle claims and provide them with insurance coverage for years to come. Our broker partners have the comfort of dealing with a secure, stable and consistent company. Our employees can be assured of our continued progress and continuity. We have been in business for 112 years and nothing in the present financial environment threatens our ability to continue growing and prospering in the years ahead.

In last year's report, I mentioned a number of initiatives that were being undertaken. We have made progress on all of them. Our Finance area continues to develop a formal business planning and financial reporting process and expects it to be in place by the end of 2009. Our Human Resources area continues to refine our approach to staff communication and development as well as succession planning. The employee intranet 'OnBoard', was introduced to most of the company in 2008 and is now available to all employees. Work is commencing on the development of a human resources information system. Our upgraded approach to succession planning assisted with a number of promotions and appointments during 2008. The Insurance Products area is focused on ensuring that products are current and pricing reviews are performed regularly, and in conjunction with the Actuarial department, is considering more advanced pricing and rating approaches. The Actuarial department is also taking steps to better utilize the data available to us in developing future rating approaches by leading the development of an enterprise data warehouse.

Perhaps the area of greatest progress is in our Information Services department. In the wake of the cancellation of the OWASYS program in late 2007, we identified certain priorities for 2008 and have addressed them all:

- We have restructured the Information Services department and implemented comprehensive new governance processes. The intention was to implement processes designed to ensure that excellent operational service is provided to all business operations and that existing systems are maintained while we develop and implement a system replacement/renewal strategy. I am pleased to report that this has been accomplished.

- We continue to work on our Broker Portal initiative which will provide for transaction connectivity with brokers to improve efficiency in our business relationship with our broker partners. While we are not yet able to announce dates for the introduction of this capability, we are confident that we have identified and are working on a very viable solution.

- We have now developed an Enterprise System Renewal Strategy. It has been reviewed by a top-tier external consultant and has been approved by our Board of Directors. It is a component-based strategy and we will soon begin working on the first major component of the strategy.

Financial Results

As mentioned above, the financial market conditions have significantly impacted the value of our investment portfolio. The value of the portfolio declined by 9.8% in 2008. In dollar terms, that is a $375 million decline on a portfolio of $3.8 billion. A portion of that decline was realized in 2008 either through investment dispositions or due to write-downs of investments considered permanently impaired. The net realized losses for 2008 were $48 million. When this loss is added to interest and dividend income, our total investment income for 2008 is $116 million. The remaining decline in value of our portfolio is included in the financial statements as a component of the Other Comprehensive Loss for the year. It is expected that the values of the securities contributing to this part of the decline will recover over time. We believe we are positioned to capture this expected future recovery in value. It is important to note that the calculation of our capital ratios considers the current market value of all investments.

Total earned premium of $1.8 billion represents growth of 4.7% compared to 2007. In Canada, earned premiums increased by 5.3% while U.S. earned premiums ($US) increased by 2.2%. We now have almost 1.8 million inforce policies. This represents an increase of 2.7%; 2.5% in Canada and 3.4% in the U.S.

For 2008, we are reporting an underwriting loss of $94 million, increased from a loss of $60 million in 2007. Our results significantly deteriorated in the second half of the year, moving from a profit at the end of June to a large loss by year end. Some deterioration is normal in the third quarter due to the summer storm season, but in 2008 the deterioration continued into the fourth quarter with December being a particularly poor month with a reported underwriting loss of over $40 million in that month alone.

There are a number of factors contributing to the year's results. Claims reserves were increased in both Alberta and Nova Scotia automobile lines related to the ongoing constitutional challenges to the minor injury regulations in those jurisdictions. In addition, we recorded an underwriting loss of $23 million as our share of Facility Association's residual market and risk sharing pool operations. This was in large part due to concerns over the constitutional challenges. Extreme winter weather in many parts of Canada led to increased auto accidents, increased fire frequency related to cold weather and increased property claims due to heavy precipitation. We also increased some claims reserves to ensure full reserve adequacy in all regions. These poor results are disappointing and surprising in that they arose very quickly in the latter part of the year. In response, we are stepping up the pace of planned rate reviews.

In summary, combining our investment income, underwriting loss, income from our two subsidiaries and a provision for income taxes, we are reporting net income for the year of $19 million. We are reporting an Other Comprehensive Loss for the year of $245 million, which as mentioned above, is the result of the decline in value of our investment portfolio. While Total Equity has declined to $1.7 billion, it continues to represent a very strong financial position.

Regional Results

The Maritime Region continued to grow steadily, almost 6% by both policy count and written premiums. Although Underwriting Income is down from 2007, results are still very good. We increased reserves in Nova Scotia automobile business for the possible adverse impact of a successful challenge to the minor injury cap in that province. While the court decision in January, 2009 was in favour of the cap, we decided not to remove the reserves that we had established as an appeal of the decision is expected. It is likely that constitutional challenges in other maritime provinces will occur in 2009 and we will watch these situations closely.

In Quebec, we have been concerned over a decline in our inforce business over the last few years. We have undertaken a number of initiatives designed to improve

our competitiveness and service levels and this appears to have stopped the decline in policy count. Policy counts increased slightly during 2008 as did written premiums. While we have made some progress, we intend to continue taking steps to achieve better growth in the years ahead.

We are reporting modest growth in Ontario in a competitive market. Policy counts increased slightly in 2008 while written premiums were up close to 4%. Underwriting results declined in 2008 mainly due to poor property results as claims frequency increased substantially. Auto results were of concern in 2007 and remained so in 2008. The Ontario automobile market is of great concern to the entire industry as results have been deteriorating and this trend is expected to continue if the benefits provided by automobile policies are not amended. The benefits provided by automobile policies are very rich and there is concern that increasing claims costs will result in premium increases that consumers will find unacceptable. The Ontario government is currently performing a mandatory review of the automobile insurance system. In that regard, the industry (through the Insurance Bureau of Canada) has submitted a report to the Financial Services Commission of Ontario recommending changes to automobile policy benefits that would serve to control rising claims cost and premium levels in the years ahead.

Results for 2008 in the Winnipeg Region are excellent with policy count growth of 3.1% and written premium growth of 8.0%. Underwriting results are very good. The Winnipeg Region missed the summer storms in 2008, so there were no catastrophe losses; a nice change.

Prairie Region policy count declined somewhat in 2008 while written premiums increased by 10%. This was the result of premium increases taken in the last couple of years intended to address poor results. In spite of these rate increases and less exposure to weather catastrophes, underwriting results have not improved to the extent required and an underwriting loss is being reported.

The Northern Alberta Region continued on a steady growth pattern in 2008 but is reporting disappointing underwriting results. Automobile results declined in 2008 resulting in an underwriting loss. Part of the decline resulted from a decision to establish additional claims reserves in response to the constitutional challenge to the minor injury cap. Weather catastrophes declined by some $10 million from 2007 levels to $17 million in 2008, but the underwriting loss, while improved over 2007, is still quite significant.

The Southern Alberta Region also grew nicely in 2008 and like Northern Alberta, is reporting poor underwriting results. Automobile results declined in 2008 to a break-even underwriting position. As with Northern Alberta, these results were impacted by the establishment of additional claims reserves in response to the constitutional challenge to the minor injury cap. Weather catastrophe costs actually exceeded those of 2007 and totaled almost $30 million. Most of those costs are borne by the property line. In general, our property results were very poor and we plan to review our approach to underwriting, rating and pricing for all of Alberta in 2009.

Policy count in British Columbia Region grew modestly in 2008 while written premiums increased 7%. Growth was restricted somewhat in 2008 due to our unwillingness to accept inappropriately low property valuations in order to obtain new business. This 'insurance to value' issue remains a real concern in British Columbia and our staff is watching the situation closely. Underwriting results are quite good although extreme weather in December served to reduce an otherwise excellent year of underwriting profit.

Our United States Operations reported another year of steady growth. Written premiums exceeded $300 million for the first time in 2008. However, underwriting results were disappointing. Property results in 2007 were significantly impacted by the October wildfires and recovered in 2008 to a break-even position. However, results in the automobile line, which represents about 90% of our business, declined in 2008 such that a significant underwriting loss is reported. Much of the reported loss occurred in December, the result of increase claims frequency in the month as well as some reserve adjustments.

Wawanesa Life

Wawanesa Life has not escaped the impact of the current financial market turmoil. The turmoil has negatively impacted both the value of investments and investment income. However, strong results are reported from insurance operations.

Due to the financial market situation, it is no surprise that total assets under administration decreased by $40 million this year. This reflects a significant decrease in value of both segregated funds and the Company's stock portfolio, partially offset by an increase in value of bond holdings. Investment income was in an overall loss position due to market value declines in the investments supporting policy liabilities. Due to the Company's asset/liability matching policies, this decline in income was offset by a similar decrease in policy reserves. It is important to note that there were no defaults of interest or principal payments during the year from these investments.

Premium income in the life and health insurance lines totalled $60.5 million, an increase of 6.5% over 2007, while annuity premium decreased by $1.5 million or 5.2%. A decrease in benefit payments contributed to the positive business results, while increases in commissions and operating expenses reflect growth in business activity and an investment in staffing levels to better serve our policyholders and brokers.

The reported net income is $3.9 million before tax and $3.6 million after tax. The unrealized market value decline in investments supporting the Company's capital position, which are recorded as Other Comprehensive Loss, was significant in 2008. However, it is expected that the values of these investments will recover over time. When this amount is added to net income, the result is a Total Comprehensive Loss of $9.8 million before tax and $6.2 million after tax.

The Individual Operation continues to be a growing success. New business sales levels reached $5.5 million, 9.7% ahead of last year and again, another best ever performance. This represents a number of years of consecutive best ever sales performances. Operational improvements made during the year included expansion of underwriting eligibility rules, updating of underwriting and claims requirements and modification of policy delivery methods to include direct mailing to policyowners. These are important steps to ensure that Wawanesa Life stays competitive in the marketplace.

The Group Operation also achieved positive results that it can build on in the future. Gross inforce premiums increased by 6.6%, reversing a trend of declining premiums in recent years. The product portfolio was enhanced during the year by the launch of a Critical Illness feature to the long term disability product. The feature gives our product unique positioning in the marketplace. The implementation of the Eclipse system continued during the year resulting in the implementation of an electronic funds transfer payment option for health and dental claims.

Wawanesa Mutual reinforced its support of Wawanesa Life in 2008 by injecting an additional $15 million into the Company in order to send a positive message to the marketplace that Wawanesa is a group of companies that are strong and will remain so during this economic downturn. Wawanesa Life remains a financially strong company. The MCCSR (Minimum Continuing Capital and Surplus Requirements) ratio now sits at 240%, above industry standards and significantly above the regulatory minimum. Wawanesa Life continues to be rated as A (Excellent) by A.M. Best.

Acknowledgements

There were a number of senior management appointments in 2008. Chris Luby took on new responsibilities as Vice President, Marketing and Business Development. In this role, which is new for our Company, Chris will focus exclusively on marketing, business development and broker relations for Canadian operations. Bob LaPage was appointed Vice President, Regional Insurance Operations and along with our Regional Vice Presidents, will be responsible for our Canadian regional office operations. Barbara MacIntyre was appointed Vice President, Claims to fill the position vacated by Bob. Barbara was previously Claims Manager,

Northern Alberta Region and relocated to Winnipeg in early 2009. Brenda MacKenzie was appointed Vice President, Maritime Region in September, 2008 upon the retirement of Sharon Gates. All of the individuals mentioned above have long and excellent service records with Wawanesa. We take pride in being able to fill senior position from within the Company.

Ken Matchett joined the board in May of 2008. Ken is a chartered accountant who was previously the CEO of a major Canadian grain trading company and has served on various corporate boards. Ken's financial knowledge and experience will make him a strong contributor to the Board.

I would like to thank our employees for everything they do to provide great service to our customers and brokers. We are grateful for the continued support of our brokers. 2008 was an interesting year and the next few years will surely be as well. We are living through a financial and economic crisis which has impacted our investment portfolio. We have also experienced disappointing insurance results at this time. Our ability to confidently navigate through these turbulent times serves to highlight the stability and strength of our Company and the value of our large capital position which has been accumulated over many years. In fact, during these times, we continue to make great progress toward our longer term strategic objectives. We are well positioned for the future.

Ken McCrea, CA
President and Chief Executive Officer

The Wawanesa Mutual Insurance Company

Auditors' Report

Founded in 1896
Incorporated May 1, 1929

Head Office
Wawanesa, Manitoba

Executive Office
900–191 Broadway
Winnipeg, Manitoba

Officers and Corporate Management

K. E. McCrea, CA, FLMI
President and Chief Executive Officer

G. N. Bass, Q.C.
Vice President, General Counsel and Secretary

B. A. MacKinnon, FCAS, FCIA, MAAA
Vice President and Chief Actuary

G. J. Timlick, CA
Vice President and Chief Financial Officer

P. R. Goodman, CA
Vice President and Comptroller

S. J. Goy, ACAS, CIP
Vice President, Insurance Products

R. G. LaPage, FCIP, CRM
Vice President, Regional Insurance Operations

C. R. Loeppky, BScCS
Vice President, Information Services

C. B. Luby, FCIP, CRM
Vice President, Marketing and Business Development

B. K. MacIntyre, BBA, FCIP
Vice President, Claims

T. L. Nelson, FLMI/M, CHRP, CIP
Vice President, Human Resources

P. R. Mulaire, CMA, FCIP, CIA
Manager, Internal Audit

To the Directors of The Wawanesa Mutual Insurance Company

We have audited the consolidated balance sheet of **The Wawanesa Mutual Insurance Company** as at December 31, 2008 and the consolidated statements of operations, equity, comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Note 4 describes the policy with respect to the non-consolidation of a 100% owned subsidiary, The Wawanesa Life Insurance Company, whereby the investment is recorded on the equity basis. In this respect, the consolidated financial statements are not in accordance with Canadian generally accepted accounting principles. Note 6 includes information on significant balance sheet and statement of operations items of the subsidiary. Had the financial statements of the subsidiary been consolidated, virtually every account in, and the information provided by way of notes to, the accompanying consolidated financial statements would have been affected by the underlying information of the subsidiary.

In our opinion, except for the effect of not consolidating The Wawanesa Life Insurance Company, as described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
February 23, 2009, Winnipeg, Manitoba

PRICEWATERHOUSECOOPERS

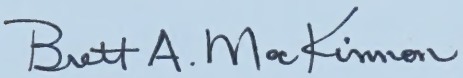
The Wawanesa Mutual Insurance Company

Appointed Actuary's Report

To the Directors of The Wawanesa Mutual Insurance Company

I have valued the policy liabilities of the Company for its consolidated balance sheet as at December 31, 2008 and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice including selection of appropriate assumptions and methods.

In my opinion the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the result of the valuation.



Brett A. MacKinnon, FCAS, FCIA, MAAA
February 23, 2009, Winnipeg, Manitoba

Branch Offices

Maritime
1010 St. George Boulevard
Moncton, New Brunswick
B. E. MacKenzie, CIP
Vice President, Maritime Region

Québec
8585 Décarie Boulevard
Montréal, Québec
C. Auclair, PAA
Vice President, Québec Region

Ontario
100–4110 Yonge Street
Toronto, Ontario
T. R. Greer
Vice President, Ontario Region

Winnipeg
700–200 Main Street
Winnipeg, Manitoba
E. Rossong, FCIP
Vice President, Winnipeg Region

Prairie
Wawanesa, Manitoba
W. G. McGregor, FCIP
Vice President, Prairie Region

Northern Alberta
100, 8657–51st Avenue
Edmonton, Alberta
N. D. Miller, FCIP
Vice President, Northern Alberta Region

Southern Alberta
600, 708–11 Avenue S.W.
Calgary, Alberta
J. A. Breau
Vice President, Southern Alberta Region

British Columbia
400–1985 West Broadway
Vancouver, British Columbia
K. L. Coates, FCIP, FRM
Vice President, British Columbia Region

United States
9050 Friars Road
San Diego, California
D. J. Goss
Vice President, United States Operations

The Wawanesa Mutual Insurance Company

Consolidated Balance Sheet

	As at December 31	
	2008	2007
	('000s)	
Assets		
Investments (note 5)	**$ 3,757,644**	$ 3,820,995
Accrued investment income	**25,125**	22,794
Receivables	**487,094**	455,001
Income taxes recoverable	**86,549**	80,675
Investment in subsidiary (note 6)	**67,780**	54,365
Real estate – at cost, less accumulated depreciation of $28,920 (2007 – $28,118)	**44,775**	42,939
Furniture and equipment – at cost, less accumulated depreciation	**13,542**	12,654
Due from Facility Association	**10,488**	14,930
Deferred acquisition expenses	**161,115**	142,642
Future income taxes (note 9)	**62,112**	16,219
Total assets	**$ 4,716,224**	$ 4,663,214
Liabilities and Equity		
Bank indebtedness	**$ 12,212**	$ 6,537
Unpaid claims (note 7)	**1,870,848**	1,678,460
Other liabilities	**127,249**	122,601
Unearned premiums	**979,189**	889,472
Mortgage payable	**–**	12,998
Total liabilities	**2,989,498**	2,710,068
Total equity	**1,726,726**	1,953,146
Total liabilities and equity	**$ 4,716,224**	$ 4,663,214

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statement of Operations

	For the year ended December 31			
	2008		2007	
	('000s)			
Gross premiums written		**$ 1,905,440**		$ 1,808,837
Premiums ceded		**(32,366)**		(35,775)
Net premiums written		**1,873,074**		1,773,062
Increase in unearned premiums		**(54,577)**		(35,412)
Net premiums earned		**1,818,497**		1,737,650
Instalment service charges earned		**26,121**		24,025
		1,844,618		1,761,675
Deduct: Claims incurred	**$ 1,480,087**		$ 1,355,535	
Expenses incurred	**458,561**	**1,938,648**	466,076	1,821,611
Underwriting loss		**(94,030)**		(59,936)
Net investment income:				
Realized gain (loss) on sale of available-for-sale assets		**(48,020)**		91,167
Other net investment income (note 5)		**164,090**		144,157
		116,070		235,324
Income before income taxes		**22,040**		175,388
Income taxes (note 9)				
Current	**12,502**		58,143	
Future	**(4,633)**	**7,869**	6,031	64,174
Income before the following		**14,171**		111,214
Income from subsidiary		**4,878**		4,562
Net income for the year		**$ 19,049**		$ 115,776

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statement of Equity

	For the year ended at December 31	
	2008	2007
	('000s)	
Retained earnings		
Balance – beginning of year	**$ 1,853,721**	$ 1,737,945
Net income	**19,049**	115,776
Balance – end of year	**1,872,770**	1,853,721
Accumulated other comprehensive income (loss) – net of taxes		
Balance – beginning of year	**99,425**	252,875
Total other comprehensive loss	**(245,469)**	(153,450)
Balance - end of year	**(146,044)**	99,425
Total equity	**$ 1,726,726**	$ 1,953,146
Accumulated other comprehensive income (loss) – net of taxes (note 9)		
Balance – end of year consists of:		
Net unrealized gain (loss) on available-for-sale assets	**$ (125,382)**	$ 172,698
Unrealized loss on translation of financial statement operations with US dollar functional currency to Canadian dollar reporting	**(19,141)**	(78,216)
Other comprehensive income (loss) on equity investment	**(1,521)**	4,943
Balance – end of year	**$ (146,044)**	$ 99,425

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statement of Comprehensive Loss

	For the year ended at December 31	
	2008	2007
	('000s)	
Net income for the year	**$ 19,049**	$ 115,776
Other comprehensive loss, net of taxes (note 9):		
Unrealized losses on available-for-sale assets	**(333,972)**	(39,396)
Reclassifications to net income for available-for-sale assets	**35,892**	(72,406)
Unrealized gain (loss) on translation of financial statement operations with US dollar functional currency to Canadian dollar reporting currency	**59,075**	(40,486)
Other comprehensive loss on equity investment	**(6,464)**	(1,162)
Total other comprehensive loss	**(245,469)**	(153,450)
Total comprehensive loss	**$ (226,420)**	$ (37,674)

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Consolidated Statement of Cash Flows

	For the year ended at December 31	
	2008	2007
	('000s)	
Cash provided by (used in)		
Operating activities		
Receipts		
Premiums received	**$ 1,860,715**	$ 1,737,245
Investment income received	**194,974**	173,617
	2,055,689	1,910,862
Payments		
Claims paid, net of reinsurance recovered	**1,266,541**	1,219,162
Expenses paid	**467,399**	460,368
Income taxes paid (recovered)	**(68,520)**	139,548
Change in other assets and liabilities	**10,732**	(22,960)
	1,676,152	1,796,118
Net cash from operating activities	**379,537**	114,744
Investing activities		
Bonds purchased	**(5,220,076)**	(5,978,789)
Bonds sold, redeemed or matured	**4,937,963**	5,729,478
Stocks purchased	**(198,906)**	(270,632)
Stocks sold or redeemed	**172,347**	389,516
Furniture and equipment, net	**(5,178)**	(4,436)
Real estate improvements	**(469)**	(189)
Other assets, net	**(4,993)**	(2,401)
Foreign exchange	**(50,900)**	42,993
Net cash used in investing activities	**(370,212)**	(94,460)
Financing activities		
Capital contribution to The Wawanesa Life Insurance Company	**(15,000)**	–
Net cash used in financing activities	**(15,000)**	–
Increase (decrease) in cash for the year	**(5,675)**	20,284
Bank indebtedness – Beginning of year	**(6,537)**	(26,821)
Bank indebtedness – End of year	**$ (12,212)**	$ (6,537)

The accompanying notes constitute an integral part of the consolidated financial statements.

The Wawanesa Mutual Insurance Company

Notes to Consolidated Financial Statements December 31, 2008

1 Reporting Responsibilities

The financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the policyholders as to whether the annual financial statements present fairly, in all material respects, the financial position and results of operations of the Company in accordance with Canadian generally accepted accounting principles.

The Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. He is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. He is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

Policy liabilities primarily include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unearned premiums and unpaid claims and adjustment expenses and deferred premium acquisition costs. The Appointed Actuary uses the work of the external and internal auditors in verifying data files for valuation purposes.

2 Basis of Presentation

These financial statements have been prepared in accordance with the Insurance Companies Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the Superintendent), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements are summarized in note 4. These accounting policies conform, in all material respects, to Canadian GAAP except that one subsidiary is not consolidated, as described in note 4.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty include the assessment of other than temporary impairment of available-for-sale investments (note 5), the provision for unpaid claims (note 7) and the carrying value of future tax assets (note 9). Actual results could differ from those estimates.

3 Change in Accounting Policies

On January 1, 2008, the Company adopted the following new accounting standards that were issued by The Canadian Institute of Chartered Accountants (CICA): Handbook Section 1535, "Capital Disclosures"; Section 3862, "Financial Instruments – Disclosures"; and Section 3863, "Financial Instruments – Presentation".

Capital Disclosures

Section 1535, "Capital Disclosures", requires disclosure of the Company's objectives, policies and processes for managing capital; information about what the Company regards as capital; whether the Company has complied with any capital requirements; and the consequences of not complying with these capital requirements.

Financial Instruments – Disclosures and Presentation

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation".

Section 3862, "Financial Instruments – Disclosures", requires enhanced financial instrument disclosures focusing on disclosures related to the significance, nature and extent of risks arising from financial instruments and how the Company manages those risks.

Section 3863, "Financial Instruments – Presentation" carries forward, unchanged, the presentation requirements of Section 3861, "Financial Instruments – Disclosure and Presentation".

General standards of financial statement presentation

The Accounting Standards Board (AcSB) amended CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", to include requirements for management to assess the Company's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the Company's ability to continue as a going concern. The Company adopted the new standard effective January 1, 2008. Management noted no issues with the Company's ability to continue as a going concern.

The purpose of these new standards is to enhance disclosure requirements. The application of the aforementioned standards only impacted the Company's disclosures included in the financial statements.

4 Significant Accounting Policies

Basis of non-consolidation

These financial statements include consolidation of the wholly-owned subsidiary, Wawanesa General Insurance Company. The wholly-owned subsidiary, The Wawanesa Life Insurance Company, is not consolidated because management of the Company has determined that reporting of property and casualty and life insurance operations on a consolidated basis would not provide meaningful presentation. The Wawanesa Life Insurance Company is accounted for by the equity method. Its income is reflected in operations and the cost of the investment is adjusted to include post-acquisition income and is reduced by dividends.

Available-for-sale financial assets

Investments are classified as available-for-sale (AFS). AFS financial assets with quoted prices in an active market are carried at fair value on the balance sheet from the trade date. Fair values of AFS financial assets that do not have a quoted price in an active market are carried at cost, or at an amount below cost as determined by management, giving consideration to external data available. Changes in fair values are recorded, net of income taxes, in Other Comprehensive Income (OCI) until the financial asset is disposed of or has become other than temporarily impaired. When the financial asset is disposed of or has been other than temporarily impaired, the accumulated fair value adjustments recognized in Accumulated Other Comprehensive Income (AOCI) are transferred to the statement of operations.

The Company assesses whether an AFS financial asset is other than temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and there is objective evidence that the investment is impaired and the impairment is other than temporary. When unrealized losses on AFS investments are determined to be other than temporary, the difference between the cost of the investment and its market value is recorded as realized losses on investments in the statement of operations and a corresponding adjustment is made to other comprehensive income.

Loans and receivables

Receivables and Due from Facility Association are classified as loans and receivables. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Deferred acquisition expenses

Commissions and premium taxes are deferred to the extent that they are considered recoverable and are expensed in the accounting periods in which related premiums are recognized as income. The ultimate recoverability of acquisition expenses is determined without regard to investment income.

Income taxes

Income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences in the carrying value of an asset or liability in the balance sheet and its value for tax purposes. Future income tax assets are recognized to the extent that realization is considered more likely than not.

Financial liabilities

Any such liabilities, other than unpaid claims, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Unpaid claims

The provision for unpaid claims is established by the case method as claims are reported. The estimates are regularly reviewed and updated as additional information on the estimated unpaid claims becomes known and any resulting adjustments are included in the statement of operations. A provision is also made for management's calculation of factors affecting future development of unpaid claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims. The unpaid claims are discounted as mandated by the Superintendent.

Salvage and subrogation

Salvage and subrogation recoveries on claims are recorded as a reduction of claims incurred on an accrual basis.

Employee future benefits

The Company maintains defined benefit plans for substantially all employees. The plans provide pensions based on length of service and final average earnings. In addition, the Company provides life insurance, dental and health benefit plans for retired employees.

The costs of these benefits related to current service are charged to operations in the period in which the services are rendered. The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, future cost escalation, retirement ages of employees and other actuarial factors). Past service costs, any net excess actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the market value of the plans assets, together with the transitional assets that resulted on the adoption of the new accounting standards, are amortized over the expected average remaining service lives of the employee group.

The excess of funding pension payments over pension expense is recorded as an asset. Non-pension benefits are not funded. The accumulated non-pension benefit expense is recorded as a liability.

The Company also provides defined contribution plans for certain employees. Contributions are expensed in the period that they are paid.

Foreign exchange translation

The Company translates the assets, liabilities, income and expenses of its United States branch and its United States subsidiary, both of which are self-sustaining operations, to Canadian dollars on the following basis:

- Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date.
- Income and expense items are translated at the rate in effect on the dates they occur.
- Gains and losses resulting from translation are deferred and shown as a separate component of accumulated other comprehensive income (loss).

Premiums earned

Premiums are taken into income on a pro-rata basis over the policy term.

Investment income

Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date. Gains and losses are determined and recorded as at the trade date, and are calculated on the basis of average cost.

The effective interest rate method is used to amortize premiums or discounts on the purchase of AFS bonds.

5 Investments and Related Net Investment Income

a) Fair value of investments

	2008	2007
	('000s)	
Bonds		
Canadian	**$ 2,033,875**	$ 1,748,590
Foreign	**790,752**	772,268
	2,824,627	2,520,858
Stocks		
Preferred		
Canadian	**36,352**	45,917
Common		
Canadian	**417,574**	616,914
Foreign	**479,091**	637,306
	933,017	1,300,137
Total investments	**$ 3,757,644**	$ 3,820,995

b) Bonds

The fair value of publicly traded bonds is determined using quoted market bid prices. For non-publicly traded bonds, fair value is determined using a discounted cash flow approach that includes provisions for credit risk and the expected maturities of the securities. The valuation techniques used are primarily based on observable market prices or rates. In limited circumstances, valuation assumptions not based on observable market data may be used. The Company does not believe that using alternative assumptions in the valuation techniques for these bonds would result in significantly different fair values.

AFS bonds are reported at fair value on the balance sheet.

c) Stocks

The fair value of publicly traded stocks is determined using quoted market bid prices.

AFS stocks are reported at fair value on the balance sheet. Stocks that do not have a quoted market price on an active market are reported at cost and are not material to these financial statements.

d) Temporarily impaired AFS assets

The AFS assets disclosed in the following table exhibit evidence of impairment, however, the impairment loss has not been recognized in net income because it is considered temporary. AFS bonds and stocks have generally been identified as temporarily impaired if their amortized cost as at December 31, 2008 was greater than their fair value, resulting in an unrealized loss. Unrealized losses may be due to interest rate fluctuations and/or depressed fair values in sectors which have experienced unusually strong negative market reactions. In connection with the Company's investment management practices and review of its investment holdings, it is believed that the contractual terms of bond investments will be met and/or the Company has the ability to hold these investments until recovery in value.

	Fair value	Unrealized losses
	('000s)	
Bonds	$ 1,100,346	$ 132,394
Stocks	538,759	185,657
Total temporarily impaired financial assets	$ 1,639,105	$ 318,051

Included in realized gain (loss) on sale of AFS assets are write-downs of AFS financial assets due to other-than-temporary impairment of $39,706,000 (2007 – $7,720,000) for the year ended December 31, 2008.

e) Maturity schedule of fixed-term investments

	As at December 31, 2008				
	One year or less	One to five years	Five to ten years	More than ten years	Total
	('000s)				
Bonds	$ 43,015	$ 1,088,446	$ 775,949	$ 917,217	$ 2,824,627

f) Other net investment income

Other net investment income has the following components:

	2008	2007
	('000s)	
Interest income		
AFS bonds	**$ 128,700**	$ 116,887
Cash, cash equivalents and short-term securities	**3,760**	3,084
Dividends on AFS stocks	**20,163**	21,066
Other income	**17,439**	20,979
Investment expenses	**(4,949)**	(4,719)
Interest expense	**(1,023)**	(13,140)
Total other net investment income and management fees	**$ 164,090**	$ 144,157

Included in interest expense in 2007 is $11,900,000 related to a Canada Revenue Agency audit.

6 Investment in Subsidiary

	2008	2007
	('000s)	
The Wawanesa Life Insurance Company, 100% owned	**$ 67,780**	$ 54,365

During the year, the Company invested an additional $15,000,000 in common shares of The Wawanesa Life Insurance Company.

A summary of the significant balance sheet items for The Wawanesa Life Insurance Company is as follows:

	2008	2007
	('000s)	
Investments	**$ 476,684**	$ 481,071
Accrued investment income	**4,208**	3,885
Other assets	**12,338**	11,748
	$ 493,230	$ 496,704
Policy liabilities	**$ 386,246**	$ 394,819
Other liabilities	**6,499**	10,196
Total equity	**100,485**	91,689
	$ 493,230	$ 496,704

A summary of the significant operating results for The Wawanesa Life Insurance Company is as follows:

	2008	2007
	('000s)	
Premium income	**$ 88,045**	$ 85,870
Net investment income (loss)	**(11,364)**	17,267
	76,681	103,137
Benefits and expenses	**72,734**	93,615
Income before income taxes	**3,947**	9,522
Income taxes	**349**	2,220
Net income for the year	**3,598**	7,302
Other comprehensive loss for the year	**(9,802)**	(2,441)
Total comprehensive income (loss) for the year	**$ (6,204)**	$ 4,861

Net income of $4,878,000 (2007 – $4,562,000) was allocated to the Company and net losses of $1,280,000 (2007 – income of $2,740,000) to the participating policyholders of The Wawanesa Life Insurance Company.

7 Unpaid Claims

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses, expected salvage and subrogation and the related reinsurers' share of each requires an assessment of future claims development. This assessment takes into account the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Company's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the statement of operations for the period in which the change occurred. This estimate does reflect the time value of money as mandated by the Superintendent. In that respect, the Company determines the discount rate based upon the expected return of bonds held in the portfolio that approximates the cash flow requirements of the unpaid claim. The discount rate applied was 4.95% (2007 – 5.25%). To recognize the uncertainty inherent in determining unpaid claim amounts, the Company includes a Provision for Adverse Deviations (PFADs) relating to claim development, reinsurance recoveries and future investment income. The PFADs selected are all within the ranges recommended by the Canadian Institute of Actuaries.

The table below details the provision for unpaid claims by major line of business:

	2008	2007
	('000s)	
Line of business		
Automobile	**$ 1,442,960**	$ 1,287,845
Personal property	**275,888**	255,532
Commercial property	**105,689**	95,536
Other	**46,311**	39,547
Total gross unpaid claims	**1,870,848**	1,678,460
Reinsurers' portion	**10,276**	31,620
Net unpaid claims	**$ 1,860,572**	$ 1,646,840

Changes in unpaid claims:

	2008	2007
	('000s)	
Unpaid claims – beginning of year	**$ 1,678,460**	$ 1,513,622
Change in estimates for losses occurring in prior years	**29,113**	(30,365)
Provision for claims occurring in the current year	**1,475,740**	1,403,535
Paid on claims	**(1,312,465)**	(1,208,332)
Unpaid claims – end of year	**$ 1,870,848**	$ 1,678,460

Effects of discounting on unpaid claims:

	Undiscounted	Effects of present value	PFAD	Discounted
		('000s)		
2008				
Provision for unpaid claims	**$ 1,909,352**	**$ (198,325)**	**$ 159,821**	**$ 1,870,848**
Reinsurers' share of unpaid claims	**10,581**	**(699)**	**394**	**10,276**
	$ 1,898,771	**$ (197,626)**	**$ 159,427**	**$ 1,860,572**
2007				
Provision for unpaid claims	$ 1,717,811	$ (184,450)	$ 145,099	$ 1,678,460
Reinsurers' share of unpaid claims	31,821	(1,568)	1,367	31,620
	$ 1,685,990	$ (182,882)	$ 143,732	$ 1,646,840

8 Employee Future Benefits

Description of benefit plans

The Company has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its employees. Pension benefits are based on length of service and final average earnings and may be indexed at the discretion of the Board of Directors. Other retirement benefit plans are non-contributory health care and life insurance plans.

Total cash payments

Total cash payments for employee future benefits for 2008, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for unfunded other benefit plans, and cash contributed to defined contribution plans, was $14,535,000 (2007 – $12,928,000).

Defined benefit plans

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the defined benefit pension plan and the supplemental plan for funding purposes was as of December 31, 2006. The next required valuation of the supplemental plan and the U.S. employees defined benefit pension plan will be as at December 31, 2008. The next required valuation of the Canadian employees defined benefit pension plan will be as at December 31, 2009.

Defined benefit plan assets

The percentage of plan assets by major category measured at December 31 is:

	2008	2007
	%	%
Equity securities	58	62
Debt securities	36	33
Other	6	5
	100	100

Reconciliation of the funded status of the benefit plans to the amounts recorded in the financial statements

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
	('000s)		('000s)	
Market value of plan assets	**$ 245,843**	$ 277,445	**$ –**	$ –
Accrued benefit obligation	**(323,621)**	(287,233)	**(31,259)**	(38,868)
Funded status of plans – deficit	**(77,778)**	(9,788)	**(31,259)**	(38,868)
Balance of unamortized losses	**89,586**	22,654	**2,358**	14,488
Accrued benefit asset (liability)	**$ 11,808**	$ 12,866	**$ (28,901)**	$ (24,380)

The accrued benefit asset (liability) is included in the Company's balance sheet as follows:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
	('000s)		('000s)	
Receivables	**$ 11,808**	$ 12,866	**$ –**	$ –
Other liabilities	**–**	–	**(28,901)**	(24,380)
	$ 11,808	$ 12,866	**$ (28,901)**	$ (24,380)

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
	('000s)		('000s)	
Accrued benefit obligation	**$ (323,621)**	$ (287,233)	**$ (31,259)**	$ (38,868)
Fair value of plan assets	**245,843**	277,445	**–**	–
Funded status – plan deficit	**$ (77,778)**	$ (9,788)	**$ (31,259)**	$ (38,868)

Significant assumptions

The significant weighted average assumptions used in measuring the Company's pension and other obligations as at December 31 are:

	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Accrued benefit obligation:				
Discount rate	**4.10%**	4.75%	**7.52%**	5.45%
Rate of compensation increase	**4.20%**	4.90%	–	–
Benefit costs:				
Discount rate	**4.75%**	4.75%	**5.45%**	5.25%
Expected long-term rate of return on plan assets	**4.67%**	4.68%	–	–
Rate of compensation increase	**4.90%**	4.75%	–	–
Assumed health care cost trend rates*	–	–	**6.90%**	7.50%

* The projected health care cost trend rate will decline to the ultimate rate of 4.8% in 2013.

Benefits paid

Benefits paid were as follows:

	2008	2007
	('000s)	
Plans providing pension benefits	$ **8,789**	$ 8,552
Plans providing other benefits	**715**	678
	$ **9,504**	$ 9,230

Employee future benefit costs recognized in the year

The total cost recognized for the Company's defined benefit plans is as follows:

	2008	2007
	('000s)	
Plans providing pension benefits	$ **13,468**	$ 9,113
Plans providing other benefits	**4,632**	3,536
	$ **18,100**	$ 12,649

Defined contribution plans

The total cost recognized for the Company's defined contribution plans is as follows:

	2008	2007
	('000s)	
Plans providing pension benefits	$ **639**	$ 474

During the year, the Company funded its pension plans in excess of statutory requirements.

9 Income Taxes

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2008	2007
	('000s)	
Earnings before income taxes	**$ 22,040**	$ 175,388
Combined statutory tax rate	**31.49%**	34.14%
Tax payable based on statutory tax rate	**6,940**	59,877
Effect of:		
Permanent differences	**(4,400)**	(3,017)
Future income tax rate changes	**944**	(4,008)
Provision for tax filing positions	**(2,482)**	700
Adjustment to future tax liability	**173**	8,476
Capital taxes	**138**	148
Other	**6,556**	1,998
	$ 7,869	$ 64,174
Provision for income taxes		
Current	**$ 12,502**	$ 58,143
Future	**(4,633)**	6,031
	$ 7,869	$ 64,174

In the normal course of business, the Company may take positions on its tax returns that taxing authorities could possibly challenge. Although the Company believes it has support for positions taken on its tax returns, the Company has recorded a recoverable based on its best estimate of a non-capital loss carry-back related to prior years.

Future income tax assets and liabilities consist of temporary differences between the accounting and tax basis of assets and liabilities as follows:

	2008	2007
	('000s)	
Future income tax assets (liabilities)		
Invested assets	**$ 28,258**	$ (11,446)
Policy liabilities and other policy reserves	**25,468**	20,140
Employee future benefits	**5,017**	3,783
Other assets	**3,369**	3,742
	$ 62,112	$ 16,219

The Company expects that the future income tax assets will be realized in the normal course of operations.

Income taxes included in OCI

Other comprehensive income included on the statement of comprehensive loss is presented net of income taxes. The following income tax amounts are included in each component of other comprehensive income for the year ended December 31:

	2008	2007
	('000s)	
Unrealized losses on AFS assets	$ **140,300**	$ 11,460
Reclassifications to net income for AFS assets	**(12,128)**	37,585
Unrealized (gain) loss on translation of financial statement operations with US dollar functional currency to Canadian dollar reporting currency	**(11,077)**	9,393
Other comprehensive income on equity investment	**2,575**	1,307
Total income taxes recovery included in OCI	$ **119,670**	$ 59,745

10 Reinsurance

The Company had reinsurance in force during the year to limit its liability as follows:

- In the event of a series of claims arising out of a single occurrence the Company had obtained reinsurance with an upper amount of $750,000,000, which limited its liability to $30,000,000 in the event of a series of claims arising out of a single occurrence.
- Aggregate protection up to $75,000,000 after satisfaction of a $100,000,000 deductible. This deductible is based on an accumulation of all losses subject to the treaty that exceed $1,000,000 and are less than $31,000,000.

Certain figures in these financial statements are shown net of the following amounts related to reinsurance ceded to other companies.

	2008	2007
	('000s)	
Net premiums ceded on an earned basis	$ **32,357**	$ 35,745
Net claims and adjustment expenses ceded	**4,165**	32,115

11 Contingent Liabilities

The Company has settled some claims by purchasing annuities (structured settlements) from life insurers. The Company guarantees the future annuity payments and thus is exposed to a credit risk to the extent any of the life insurers fail to fulfill their obligations. The risk is managed by acquiring annuities from several Canadian life insurers with proven financial stability. To December 31, 2008, no information has come to the Company's attention to suggest any financial weakness in life insurers from which it has purchased annuities. Consequently, no provision for credit risk is required. The credit risk exposure is estimated at the original purchase price of the annuities of $72,983,000 (2007 – $68,459,000).

12 Related Party Transactions

The Company has the following transactions with its wholly-owned subsidiary:

The Wawanesa Life Insurance Company

- The Company recovers the cost of expenses paid on behalf of or shared with the subsidiary totalling $11,593,000 (2007 – $11,057,000).
- The Company pays commissions on behalf of its brokers to investment accounts maintained by the subsidiary of $11,275,000 (2007 – $9,039,000).
- The Company purchases group employee benefits from the subsidiary at a cost of $5,121,000 (2007 – $4,594,000).

Balances between the Company and its subsidiary are settled on a regular basis and the outstanding amounts are immaterial at December 31, 2008 and 2007.

13 Premium Rate Regulation

Substantially all of the Company's automobile business and its United States property business are subject to rate regulation by various provincial and state regulators. This business comprises approximately 65% (2007 – 65%) of gross premiums written.

Regulation of premium rates is based on the cost of providing insurance coverage which recognizes claims and other costs including anticipated profit margins. Insurance premiums can be subject to mandatory rate rollbacks and mandatory rate assessments imposed by provincial or state legislation or regulation. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior periods. In addition, the Company is required, under the legislation of certain jurisdictions, to participate in risk sharing pools which may impact positively or negatively upon underwriting results. The impact of the participation is immaterial to the overall financial statements.

At various points throughout the year, the Company will have applications pending with certain regulators for automobile premium rate changes. All are in the normal course of business. The Company is not aware of any proposed or pending rate rollbacks related to prior years.

14 Capital Management

The Company's capital management objective is to ensure that the Company is capitalized in a manner which provides a strong financial position for its policyholders and at the same time, exceed the regulatory capital requirements. Annually, the Board of Directors review available capital as defined for regulatory purposes to ensure it is meeting regulatory requirements. Management performs a similar review on a quarterly basis.

The capital structure of the Company is comprised solely of equity.

The Company is a Canadian property and casualty insurance company. Accordingly it is subject to regulation by the Office of the Superintendent of Financial Institutions (OSFI). OSFI requires Canadian property and casualty insurance companies to maintain a level of capital sufficient to achieve a target of 150% based on a Minimum Capital Test (MCT) ratio. As at December 31, 2008, the Company's MCT was in compliance with the minimum capital required.

The Wawanesa Life Insurance Company, a wholly-owned subsidiary of the Company (note 6), is a Canadian life insurance company. As a Canadian life insurance company, it is also subject to regulation by OSFI and is required to meet the Minimum Continuing Capital and Surplus Requirements (MCCSR) as established by OSFI. OSFI expects life insurance companies to maintain a minimum capital ratio of 150%. As at December 31, 2008 The Wawanesa Life Insurance Company's minimum capital ratio was in compliance with the minimum capital required.

The Company has operations based in the United States. The Company has a branch, as well as a wholly-owned subsidiary, the Wawanesa General Insurance Company, which are regulated by the California Department of Insurance and subject to the capital requirements as measured by the National Association of Insurance Commissioners (NAIC). The NAIC utilizes a risk based capital formula to assess compliance with its capital requirements. The California Department of Insurance requires that the Total Adjusted Capital of American property and casualty insurance companies not fall below 200% of the Authorized Control Level as measured by NAIC. As at December 31, 2008, the branch and the wholly-owned subsidiary were in compliance with the minimum capital required.

15 Financial Risk Management

The Board of Directors ensures that management has put appropriate risk management processes in place. Through the Audit Committee, the Board oversees such risk management procedures and controls. Management provides updates to the Audit Committee on a quarterly basis with respect to risk management.

The most significant risks that the Company must manage with respect to unpaid claims and other financial instruments are product and pricing, underwriting and liability, catastrophe and reinsurance, credit, market and liquidity risks.

Product and pricing risk

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. The Company prices its products by taking into account several factors including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate. For automobile insurance, pricing must be submitted to each provincial regulator.

In some instances, the Company may choose to adjust pricing below what it feels is acceptable in order to maintain a competitive position. However, the Company attempts to maintain a pricing level that ensures it is able to produce an acceptable return.

Underwriting and liability risk

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the retention and transfer of risks, the reserving and adjudication of claims, and the management of contractual and non-contractual product options.

The Company has specific underwriting guidelines for declining to issue, terminating, or refusing to renew a contract for each line of business in all jurisdictions. The underwriting guidelines for risk eligibility are developed in cooperation between corporate underwriting staff and the specific regional underwriting department. These guidelines must be developed in consideration of provincial underwriting rule restrictions, particularly for automobile insurance. The Company continually reviews its underwriting rules and complies with evolving provincial regulation on restricted criteria. The Company considers stability, fairness and the expectations of its existing and potential policyholders when making deliberate changes to its underwriting rules.

The Company establishes a line guide that is utilized to ensure that the limits of insurance for a particular risk do not exceed the Company's net retention or maximum written limits and the proper approval authority for the risk is obtained. Net retention is the maximum amount of insurance that the Company will retain on a single exposure. Coverage in excess of its net retention is reinsured up to its maximum written limits.

Regular audits of the Company's underwriting guidelines and workflow process are conducted by branch and corporate management and more formally by the Company's internal audit department. Internal audit's objectives are to review the internal controls and workflows in the claims, underwriting and accounting areas. This is to ensure the areas reviewed are adequately controlled in accordance with Company policy. The findings in these audits are shared with senior management and the applicable branch management and appropriate actions are taken.

Catastrophe and reinsurance risk

The Company has in place a comprehensive reinsurance program designed to protect the organization from the impact of catastrophe risk. This program provides reinsurance coverage in the event of a covered loss up to $750,000,000 subject to an appropriate deductible. In determining the protection purchased, the Company analyzes its exposure to these risks (primarily earthquake and wind/hail) on an annual basis using state of the art modeling provided through RMS. To ensure that the reinsurance provided is collectible, the Company limits participation to reinsurers that are A rated or better based on A. M. Best or Standard & Poor's rating.

The Board of Directors has approved and annually reviews the Management of Earthquake Risk policy which addresses this risk in the context of the Company. Management has provided to the Board of Directors a Reinsurance policy which deals with the types of reinsurance programs placed and the practices management follows in managing and placing.

At December 31, 2008, the Company had outstanding balances from reinsurers of $9,606,000 (2007 – $17,608,000). All amounts are with reinsurers with a credit rating of A or higher.

Credit risk

Credit risk is the possibility of financial loss, resulting from the failure of a debtor to honour its obligation to the Company.

The following table summarizes the Company's maximum exposure to credit risk on the balance sheet. The maximum credit exposure is the carrying value of the asset net of any allowances for loss.

	2008	2007
	('000s)	
Bonds		
Federal	**$ 944,214**	$ 736,646
Provincial	**393,985**	296,130
Municipal	**10,308**	–
Corporate rated A or higher	**1,297,742**	1,310,225
Corporate rated below A	**178,378**	177,857
Receivables	**487,094**	455,001
Due from Facility Association	**10,488**	14,930
Maximum credit risk exposure on the balance sheet	**$ 3,322,209**	$ 2,990,789

The Company is exposed to credit risk principally through its investment in fixed income securities and balances receivable from policyholders, brokers and reinsurers.

The Company's Investment Policy Statement, which is approved by the Investment Committee of the Board of Directors, limits the credit risk of the bond portfolio by requiring sound asset diversification, restricting the amount exposed to any one issuer and requiring a portfolio of high quality. The portfolio is monitored regularly and reviewed quarterly with the Investment Committee of the Board.

As at December 31, 2008, 93.68% (2007 – 93.23%) of the Company's investments in fixed income securities were assigned a rating of A or better by either Dominion Bond Rating Service or Moody's Investor Services.

The Company monitors its exposure to brokers and has procedures to ensure that it works only with brokers who maintain their account on a current basis.

There are no material financial assets that are past due as at December 31, 2008.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, equity risk and currency risk.

(i) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on fixed income securities. Changes in interest rates will affect the fair value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. Because investments are classified as AFS, these increases and decreases in fixed income securities will result in corresponding increases and decreases in other comprehensive income until the securities are sold and any gain or loss is realized or the securities are written down to reflect an other than temporary decline in value. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

Changes in interest rates also have an impact on the rate used to discount unpaid claims. Consequently, changes in interest rates will affect the carrying value of the unpaid claims. During periods of rising interest rates, the carrying value of unpaid claims will generally decrease and net income will increase. During periods of declining interest rates the opposite is true.

The approximate impact of an increase of 100 basis points in the interest yields would increase the net income of the Company by $38,762,000 (2007 – $31,995,000) and decrease the other comprehensive income of the Company by $173,193,000 (2007 – $171,319,000). The approximate impact of a decrease of 100 basis points in the interest yields would decrease the net income of the Company by $37,364,000 (2007 – $33,629,000) and increase other comprehensive income of the Company by $170,380,000 (2007 – $170,166,000).

The Company's Investment Policy Statement outlines the duration of each fund to be maintained within a specified range. Interest rate risk is regularly monitored by management and compliance with the Investment Policy Statement is reported to the Investment Committee on a quarterly basis.

(ii) Equity risk

Equity market fluctuation risk is where fluctuations in the value of equity securities affects the level and timing of recognition of gains and losses on securities held, and causes changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity securities and fixed income securities held.

The Company's equity portfolios are managed by independent professional investment managers. The Company has investment policies regarding diversification by geographic sector and capitalization to limit and monitor its individual issuers equity exposure. Aggregate exposure to single issuers and total equity positions are monitored on a quarterly basis.

(iii) Currency risk

Currency risk represents the risk that the Company incurs losses due to exposure to foreign currency fluctuations. Changes in the U.S. to Canadian dollar foreign currency exchange rate impact the fair value of our securities denominated in U.S. dollars and the fair value of other financial instruments held by the U.S. operations. The U.S. operations generally hold their investments in U.S. dollar denominated securities, and the Canadian operations hold securities denominated in Canadian dollars, U.S dollars, and other foreign currencies. Limits are set by the Company's Investment Policy Statement as to the amount of securities held that are denominated in foreign currencies. The Company's investment policy does not allow hedging of foreign currency positions. Compliance with the limits set by the Company's Investment Policy Statement is reported to the Investment Committee on a quarterly basis.

The approximate impact of an increase of 10% in the U.S. dollar against the Canadian dollar would increase the net income of the Company by $2,503,000 (2007 – $592,000) and increase the other comprehensive income of the Company by $90,017,000 (2007 – $79,249,000). The approximate impact of a decrease of 10% in the U.S. dollar against the Canadian dollar would decrease the net income of the Company by $2,503,000 (2007 – $592,000) and decrease the other comprehensive income of the Company by $90,017,000 (2007 – $79,249,000).

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial obligations without raising funds at unfavorable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

Liquidity guidelines have been established by the Investment Committee and are set out in the Company's Investment Policy Statement. The guidelines require that a portion of the investment portfolio be in readily marketable securities. Liquidity risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

The following table summarizes the undiscounted cash flows of financial liabilities by contractual maturity.

	As at December 31, 2008				
	One year or less	One to five years	Five to ten years	More than ten years	Total
	('000s)				
Bank indebtedness	$ 12,212	$ –	$ –	$ –	$ 12,212
Unpaid claims	673,505	797,917	389,206	48,724	1,909,352
Other financial liabilities	1,106,438	–	–	–	1,106,438
	$1,792,155	$ 797,917	$ 389,206	$ 48,724	$ 3,028,002

16 Future Impact of Recently Issued Accounting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed its plan to adopt all International Financial Reporting Standards, as published by the International Accounting Standards Board, on or by January 1, 2011. It is the Company's intent to adopt all of the International Financial Reporting Standards in accordance with the AcSB's plan.

While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

17 Comparative Figures

Certain of the prior year's figures have been restated for comparative purposes.

The Wawanesa Life Insurance Company
Auditors' Report

Incorporated July 7, 1960

Head Office
Wawanesa, Manitoba

Executive Office
200–191 Broadway
Winnipeg, Manitoba

Officers and Management

Corporate

K. E. McCrea, CA, FLMI
President and Chief Executive Officer

M. K. Nemeth, CA, FLMI, GBA
Vice President and Chief Operating Officer

G. N. Bass, Q.C.
Vice President, General Counsel and Secretary

I. R. MacDonald, FSA, FCIA
Vice President and Actuary

C. R. Loeppky, BScCS
Vice President, Information Services

T. L. Nelson, FLMI/M, CHRP, CIP
Vice President, Human Resources

T. V. Buhr, CMA
Manager, Corporate Reporting

P. M. Horncastle, CGA
Comptroller

P. R. Mulaire, CMA, FCIP, CIA
Manager, Internal Audit

K. J. Richtik, FSA, FCIA
Manager, Actuarial Financial Reporting

Insurance Operations

G. G. Sadler, CLU, ChFC, RHU
Director, Individual Sales and Marketing

R. A. Maharajh, CMA, FSA, FCIA
Group Actuary

M. M. Nolin, ALHC
Manager, Group Claims

D. M. Smook
Manager, National Group Sales & Service

A. E. Waller, MBA, CFP, ChFC, CLU
Manager, Individual Life Administration

Medical Director

Dr. R. B. Boyd, MD

To the Policyholders and Shareholder of The Wawanesa Life Insurance Company

We have audited the balance sheet of **The Wawanesa Life Insurance Company** as at December 31, 2008 and the statements of operations, comprehensive income, equity, cash flows and the segregated funds net assets and changes in segregated funds net assets for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company and of its segregated funds as at December 31, 2008 and the results of its operations, its cash flows and the changes in net assets of the segregated funds for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
February 23, 2009, Winnipeg, Manitoba

PRICEWATERHOUSECOOPERS

The Wawanesa Life Insurance Company

Appointed Actuary's Report

To the Policyholders and Shareholder of The Wawanesa Life Insurance Company

I have valued the policy liabilities of The Wawanesa Life Insurance Company for its balance sheet at December 31, 2008 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the result of the valuation.

Ian R. MacDonald
Fellow, Canadian Institute of Actuaries
February 23, 2009, Winnipeg, Manitoba

Branch Offices

Atlantic
1010 St. George Boulevard
Moncton, New Brunswick

S. B. Brydges, CFP
Individual Life Manager

F. L. Rossiter, CLU
Individual Life Manager

Ontario
100–4110 Yonge Street
Toronto, Ontario

R. W. Bridle
Individual Life Manager

B. I. Lang, RHU
Individual Life Manager

E. T. Tollefsen
Regional Group Manager

Western Manitoba
208–740 Rosser Avenue
Brandon, Manitoba

G. L. C. Goymer, CFP, ChFC, CLU, RHU
Individual Life Manager

Eastern Manitoba and NW Ontario
700–200 Main Street
Winnipeg, Manitoba

H. D. Cunningham
Individual Life Manager

T. A. McDowell
Regional Group Manager

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1418 – 8th Street East
Saskatoon, Saskatchewan

205, 2631 – 28th Avenue
Regina, Saskatchewan

L. P. J. Addison
Individual Life Manager

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100, 8657–51st Avenue
Edmonton, Alberta

C. E. Laing
Individual Life Manager

S. Lambert
Regional Group Manager

Calgary
600, 708–11 Avenue S.W.
Calgary, Alberta

C. R. Stauffer
Individual Life Manager

British Columbia
310–1985 West Broadway
Vancouver, British Columbia

S. F. Engmann
Individual Life Manager

T. C. Hickmore, GBA
Regional Group Manager

B. R. Wyne, MBA
Regional Group Manager

The Wawanesa Life Insurance Company

Balance Sheet

	As at December 31	
	2008	2007
	('000s)	
Assets		
Investments (note 5)	**$ 476,684**	$ 481,071
Cash	**7,047**	6,578
Outstanding premiums	**624**	525
Investment income due and accrued	**4,208**	3,885
Income taxes recoverable	**1,875**	1,809
Other assets	**2,792**	2,836
Total General Fund Assets	**$ 493,230**	$ 496,704
Segregated funds net assets (note 10)	**$ 103,410**	$ 140,321
Liabilities		
Policy liabilities (note 7)	**$ 386,246**	$ 394,819
Other liabilities	**3,614**	2,438
Future income taxes (note 9)	**2,885**	7,758
Total General Fund Liabilities	**392,745**	405,015
Total Equity	**100,485**	91,689
Total General Fund Liabilities and Equity	**$ 493,230**	$ 496,704
Segregated fund contract liabilities	**$ 103,410**	$ 140,321

The accompanying notes constitute an integral part of the financial statements.

The Wawanesa Life Insurance Company

Statement of Operations

	For the year ended December 31	
	2008	2007
	('000s)	
Income		
Premiums		
Life insurance	**$ 40,059**	$ 37,190
Health insurance	**20,429**	19,610
Annuities	**27,557**	29,070
	88,045	85,870
Net investment income		
Change in fair value of held-for-trading assets	**(34,796)**	(7,941)
Realized gains (losses) on sales of available-for-sale assets	**(448)**	2,428
Other net investment income (note 5)	**23,880**	22,780
	76,681	103,137
Benefits and expenses		
Amounts paid or credited to policyholders and their beneficiaries		
Death, disability and health benefits	**25,153**	25,758
Annuity payments	**3,900**	4,003
Maturities and surrenders	**22,051**	27,826
Dividends and interest	**4,932**	4,710
Increase (decrease) in actuarial liabilities	**(8,472)**	8,861
	47,564	71,158
Commissions	**9,590**	8,511
Operating expenses	**13,699**	12,304
Taxes and licences	**1,881**	1,642
	72,734	93,615
Income before income taxes	**3,947**	9,522
Income taxes (note 9)		
Current	**1,705**	34
Future	**(1,356)**	2,186
	349	2,220
Net income for the year	**$ 3,598**	$ 7,302

The accompanying notes constitute an integral part of the financial statements.

The Wawanesa Life Insurance Company

Statement of Comprehensive Income

	For the year ended December 31	
	2008	2007
	('000s)	
Net income for the year	**$ 3,598**	$ 7,302
Other comprehensive loss – net of taxes (note 9):		
Change in unrealized losses on available-for-sale assets	**(10,149)**	(778)
Reclassifications to net income for available-for-sale assets	**347**	(1,663)
Total other comprehensive loss	**(9,802)**	(2,441)
Total comprehensive income (loss)	**$ (6,204)**	$ 4,861
Allocation of net income		
Participating policyholders' account	**$ (1,064)**	$ 2,845
Shareholder account	**4,662**	4,457
Allocation of other comprehensive loss		
Participating policyholders' account	**(3,338)**	(1,279)
Shareholder account	**(6,464)**	(1,162)
	$ (6,204)	$ 4,861

The accompanying notes constitute an integral part of the financial statements.

The Wawanesa Life Insurance Company

Statement of Equity

	For the year ended December 31			
	2008			2007
	Participating policyholders	Shareholder	Total	Total
	('000s)			
Share capital (note 11)	$ –	$ 26,500	$ 26,500	$ 11,500
Policyholders' account/retained earnings				
Balance – beginning of year	29,482	43,642	73,124	65,822
Net income (loss)	(1,064)	4,662	3,598	7,302
Transfer (note 12)	(216)	216	–	–
Balance – end of year	28,202	48,520	76,722	73,124
Accumulated other comprehensive income (loss) – net of taxes (note 9)				
Balance – beginning of year	2,121	4,944	7,065	9,506
Total other comprehensive loss	(3,338)	(6,464)	(9,802)	(2,441)
Balance – end of year	(1,217)	(1,520)	(2,737)	7,065
Total retained earnings and accumulated other comprehensive income	26,985	47,000	73,985	80,189
Total equity	$ 26,985	$ 73,500	$ 100,485	$ 91,689
Accumulated other comprehensive income – net of taxes (note 9)				
Balance – end of year consists of:				
Net unrealized gains on available-for-sale assets	$ (1,217)	$ (1,520)	$ (2,737)	$ 7,065
Balance – end of year	$ (1,217)	$ (1,520)	$ (2,737)	$ 7,065

The accompanying notes constitute an integral part of the financial statements.

The Wawanesa Life Insurance Company

Statement of Cash Flows

	For the year ended December 31	
	2008	2007
	('000s)	
Cash provided by (used in)		
Operating activities		
Receipts		
Premium and annuity considerations	**$ 85,577**	$ 83,750
Investment income received	**20,455**	18,506
Other revenue	**2,370**	2,527
	108,402	104,783
Payments		
Benefits and annuity payments	**45,938**	50,508
Net transfers to segregated funds	**5,382**	7,675
Insurance expenses and taxes	**25,360**	22,752
Dividends to policyholders	**4,932**	4,710
Change in other assets and liabilities	**(160)**	(867)
	81,452	84,778
Cash provided by operating activities	**26,950**	20,005
Investing activities		
Purchases, bonds and stocks	**(286,417)**	(284,287)
Disposals, bonds and stocks	**245,123**	268,786
Advances, mortgage and policy loans	**(12,923)**	(10,396)
Repayments, mortgage and policy loans	**12,736**	10,690
Cash used in investing activities	**(41,481)**	(15,207)
Financing activities		
Proceeds from issuance of share capital (note 11)	**15,000**	–
Cash provided by financing activities	**15,000**	–
Increase in cash for the year	**469**	4,798
Cash – Beginning of year	**6,578**	1,780
Cash – End of year	**$ 7,047**	$ 6,578
Income taxes paid	**$ 1,366**	$ 600

The accompanying notes constitute an integral part of the financial statements.

The Wawanesa Life Insurance Company

Statement of Changes in Segregated Funds Net Assets

	For the year ended December 31	
	2008	2007
	('000s)	
Additions to segregated funds		
Proceeds from sale of units	**$ 20,963**	$ 27,877
Unrealized depreciation of investments	**(46,845)**	(1,461)
Net realized gains	**3,326**	4,136
Investment income	**3,409**	3,258
	(19,147)	33,810
Deductions from segregated funds		
Payments on redemption of units	**15,583**	20,203
Management fees	**2,181**	2,390
	17,764	22,593
Net (decrease) increase to segregated funds for the year	**(36,911)**	11,217
Segregated funds net assets – beginning of year	**140,321**	129,104
Segregated funds net assets – end of year	**$ 103,410**	$ 140,321

Statement of Segregated Funds Net Assets

	For the year ended December 31	
	2008	2007
	('000s)	
Assets		
Mutual Fund units	**$ 103,706**	$ 140,383
Liabilities		
Amounts due to The Wawanesa Life Insurance Company	**31**	62
Amounts due to brokers for securities purchased	**265**	–
Net assets attributed to segregated funds policyholders	**$ 103,410**	$ 140,321

The accompanying notes constitute an integral part of the financial statements.

The Wawanesa Life Insurance Company

Notes to Financial Statements December 31, 2008

1 Reporting Responsibilities

The financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the policyholders and shareholder as to whether the annual financial statements present fairly, in all material respects, the financial position and results of operations of the Company in accordance with Canadian generally accepted accounting principles.

The Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. He is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. He is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

The Appointed Actuary uses the work of the external and internal auditors in verifying data files for valuation purposes.

2 Basis of Presentation

The Wawanesa Life Insurance Company (referred to as the Company) is a wholly-owned subsidiary of The Wawanesa Mutual Insurance Company. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and directives of the Office of the Superintendent of Financial Institutions Canada (OSFI or the Superintendent). None of the accounting requirements of OSFI are exceptions to Canadian GAAP. The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies conform, in all material respects, to Canadian GAAP.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty include the assessment of other than temporary impairment of available-for-sale investments (note 5), the provision for policy liabilities (note 7) and the carrying value of future tax liabilities (note 9). Actual results could differ from those estimates.

3 Change in Accounting Policies

On January 1, 2008, the Company adopted the following new accounting standards that were issued by The Canadian Institute of Chartered Accountants (CICA): Handbook Section 1535, "Capital Disclosures"; Section 3862, "Financial Instruments – Disclosures"; and Section 3863, "Financial Instruments – Presentation".

Capital Disclosures

Section 1535 requires disclosure of the Company's objectives, policies and processes for managing capital; information about what the Company regards as capital; whether the Company has complied with any externally imposed capital requirements; and the consequences of not complying with these capital requirements.

Financial Instruments – Disclosures and Presentation

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation".

Section 3862, "Financial Instruments – Disclosures", requires enhanced financial instrument disclosures focusing on disclosures related to the significance, nature and extent of risks arising from financial instruments and how the Company manages those risks.

Section 3863, "Financial Instruments – Presentation", carries forward, unchanged, the presentation requirements of Section 3861, "Financial Instruments – Disclosure and Presentation".

General standards of financial statement presentation

The Accounting Standards Board (AcSB) amended CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", to include requirements for management to assess the Company's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the Company's ability to continue as a going concern. The Company adopted the new standard effective January 1, 2008. Management noted no issues with the Company's ability to continue as a going concern.

The purpose of these new standards is to enhance disclosure requirements. The application of the aforementioned standards only impacted the Company's disclosures included in the financial statements.

4 Significant Accounting Policies

Investments

Bonds and stocks are designated as available for sale (AFS) or held for trading (HFT). The Company uses trade date accounting for purchases and sales of these investments.

AFS financial assets

AFS financial assets with quoted prices in an active market are carried at fair value on the balance sheet from the trade date. Fair values of AFS financial assets that do not have a quoted price in an active market are carried at cost, or at an amount below cost as determined by management, giving consideration to external data available. Changes in fair values are recorded, net of income taxes, in other comprehensive income (OCI) until the financial asset is disposed of or has become other than temporarily impaired. When the financial asset is disposed of or has been other than temporarily impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the statement of operations.

A provision for impairment of AFS financial assets is established when there is objective evidence that the investment is impaired and the impairment is other than temporary. The Company assesses whether an AFS financial asset is other than temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as fundamental credit problems of the issuer such that it is probable that the Company will not be able to receive or collect all amounts due according to the contractual terms of the investment.

If the impairment is caused, in whole or in part, by credit spreads widening, the change in credit spreads is deemed to be "interest related". "Interest related" includes a declining value due to increases in the risk free interest rate and general credit spread widening. Credit spreads can widen or contract for a variety of reasons, including supply/demand imbalances in the marketplace or perceived higher/lower risk of an entire sector. Such impairments are deemed to be temporary.

HFT financial assets

HFT financial assets are carried at fair value on the balance sheet from the trade date. Realized gains and losses and unrealized changes in fair values are recorded in net income. HFT financial assets are purchased or incurred with the intention of generating profits in the near term or are designated as such by the Company. The Company has designated all bonds and stocks that support the policy liabilities as HFT. Fair values of HFT financial assets that do not have a quoted price in an active market are carried at cost, or an amount below cost as determined by management, giving consideration to external data available.

Mortgages and policy loans

Financial assets classified as loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment losses, if any. Policy loans are not subject to impairment losses because they are fully secured by the policy values on which the loans are made.

Segregated funds

Segregated funds are investment options available to annuity policyholders in which the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Company, and the annuity policyholder has no direct access to the specific assets, the contractual arrangements are such that the annuity policyholder bears the risk and rewards of the fund's investment performance. In addition, certain annuity policies have minimum maturity value and death benefit guarantees from the Company. Payments for such guarantees are included in amounts paid or credited to policyholders and their beneficiaries in the statement of operations. Additional liabilities, if any, associated with these minimum guarantees are recorded in actuarial liabilities. The Company derives fee income from segregated funds, which is included in annuity premiums on the statement of operations. Policyholder transfers between general funds and segregated funds are included in maturities and surrenders on the statement of operations.

Financial liabilities

Any such liabilities, other than actuarial liabilities, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Actuarial liabilities are described in Notes 1 and 7.

Income taxes

Income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences in the carrying value of an asset or liability in the balance sheet and its value for tax purposes. Future income tax assets are recognized to the extent that realization is considered more likely than not.

Premium income and benefits expense

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. Expenses are recognized when incurred. Actuarial liabilities are computed at the end of each period, resulting in benefits and expenses matching with the premium income.

Other net investment income

Interest and dividend income is recognized on an accrual basis. Dividend income on stocks is recorded on the ex-dividend date. The effective interest rate method is used to amortize premiums or discounts over the life of bonds. Investment expenses are recognized when incurred.

Employee future benefits

Employees of the Company are provided with pension and post employment benefits on a defined benefit basis through membership in plans offered by The Wawanesa Mutual Insurance Company. The Wawanesa Mutual Insurance Company owns 100% of the issued and outstanding shares of the Company. The obligation for funding of these plans rests with The Wawanesa Mutual Insurance Company. The Company is charged appropriate annual service costs for all benefits and remits these amounts to The Wawanesa Mutual Insurance Company.

5 Investments and Investment Income

The carrying and fair value of the Company's investment portfolio by financial instrument classification as at December 31 is as follows:

	2008					2007	
	Designated as HFT	Classified as AFS	Classified as loans and receivables	Total carrying value	Total fair value	Total carrying value	Total fair value
	('000s)					('000s)	
Bonds	**$ 317,474**	**$ 73,255**	**$ –**	**$390,729**	**$390,729**	$ 371,707	$ 371,707
Stocks	**24,382**	**19,568**	**–**	**43,950**	**43,950**	67,545	67,545
Mortgages	**–**	**–**	**28,156**	**28,156**	**29,672**	28,394	28,412
Policy loans	**–**	**–**	**13,849**	**13,849**	**13,849**	13,425	13,425
	$341,856	**$ 92,823**	**$ 42,005**	**$476,684**	**$478,200**	$ 481,071	$ 481,089

Bonds are comprised of government 48.4% (2007 – 43.8%) and corporate 51.6% (2007 – 56.2%) with effective interest rates of 1.3% to 15.9% (2007 – 3.2% to 9.5%). Maturities range from less than one year to 38 years (2007 – one year to 39 years). Bonds with a quality rating of BBB or higher represent 100% (2007 – 100%) of the portfolio. Bonds rated A or higher constitute 97.4% (2007 – 98.2%) of the portfolio.

The fair value for publicly traded bonds is determined using the quoted market bid prices. HFT and AFS bonds are reported at fair value as of December 31, 2008, the last market trading day of the year. The carrying value of these bonds is equal to their fair value.

Stocks are comprised of units in institutional pooled equity funds. These funds include investments in common stock of major Canadian, U.S. and International companies and in Canadian corporate and government bonds. In general, stocks have no fixed maturity date and are not exposed directly to interest rate risk. Dividend yields on these funds range from 3.0% to 5.0% (2007 – 1.8% to 4.5%).

The fair value for stocks is valued at the underlying mutual funds' transactional net asset value per unit at the end of each valuation day. Bid prices are not available for the underlying funds. HFT and AFS stocks are reported at fair value as of December 31, 2008, the last valuation day of the year. The carrying value of these stocks is equal to their fair value.

Mortgages are secured by first recourse on residential properties. Interest rates range from 4.0% to 6.8% (2007 – 4.1% to 7.5%). Virtually all are for a fixed term ranging from 6 months to 10 years (2007 – 6 months to 10 years) and 38.7% (2007 – 43.7%) of balances are insured. Principal and interest payments are received on a monthly or more frequent basis. There is no provision for impairment loss on mortgages. The Company commences foreclosure proceedings in the event that any mortgage becomes delinquent.

The fair value for mortgages is determined by discounting the mortgage cash flows by the Canadian yield curve plus a margin. The carrying value is the outstanding principal balances.

Policy loans have interest rates which are set annually and range from 6% to 7% (2007 – 6% to 7%).

The outstanding balance for policy loans approximates the fair value since interest rates are set annually and approximate market rates.

Other net investment income is from the following sources:

	2008	2007
	('000s)	
Interest income		
Held for trading bonds	**$ 15,865**	$ 14,972
Available for sale bonds	**3,030**	2,641
Mortgages	**1,521**	1,528
Policy loans	**944**	921
Cash and other interest income	**176**	224
Dividend income		
Held for trading stocks	**1,522**	1,405
Available for sale stocks	**1,340**	1,545
Other income	**31**	71
Investment expenses	**(549)**	(527)
Total other net investment income	**$ 23,880**	$ 22,780

Other than temporarily impaired available for sale (AFS) assets

The Company's write downs for impaired AFS assets in the year were nil (2007 – nil).

General provisions made for anticipated future losses of principal and interest on investments are included as a component of policy liabilities and are approximately $5,958,000 (2007 – $5,090,000).

Temporarily impaired available for sale (AFS) assets

The AFS assets disclosed in the following table exhibit evidence of impairment, however, the impairment loss has not been recognized in net income because it is considered temporary. Financial assets designated as HFT have been excluded from the following table since changes in fair value of these assets are recorded in net income.

	2008		2007	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	('000s)			
Bonds	**$ 35,515**	**$ 5,552**	$ 38,177	$ 2,135
Stocks	**3,299**	**1,217**	2,448	194
Total temporarily impaired financial assets	**$ 38,814**	**$ 6,769**	$ 40,625	$ 2,329

In connection with the Company's investment management practices and review of its investment holdings, it is believed that the contractual terms of bond investments will be met and/or the Company has the ability to hold these investments until they recover in value.

Securities lending

The Company engages in securities lending to generate fee income. Certain securities from its portfolios are loaned to other institutions for short periods. An agreement between the Company and its custodian limits lending activity to approved creditors and specifies suitable types of collateral. The collateral pledged by the borrower exceeds the value of the assets on loan. At December 31, 2008, the Company had securities on loan with a fair value of $38,835,000 backed by collateral with a fair value of $41,716,000 (2007 – securities on loan with a fair value of $34,065,000 were backed by collateral with a fair value of $35,789,000).

6 Financial Instrument Risk Management

The Company has a series of management programs and reporting structures that address the material financial instrument risks to which the Company is exposed. A Board approved framework details the Company's policies and standards and its measurement, control and reporting practices. Management actions are taken to control, mitigate or capitalize on the material risks presented in its business environment and are the basis for the Company's sound business management practices.

The most significant risks that the Company must manage concerning financial instruments include credit, market and liquidity risk.

The Company does not invest in commercial mortgages, derivatives, leases, commercial or personal loans.

Credit risk

Credit risk is the possibility of financial loss, despite realization of collateral security or property, resulting from the failure of a debtor to honour its obligation to the Company. It is a material risk that the Company is primarily exposed to through its bond and residential mortgage portfolios and policy loans.

The Company's Investment Policy Statement manages the credit risk of the bond portfolio by requiring sound asset diversification, restricting the amount exposed to any one issuer and requiring a portfolio of high quality. The credit risk in the mortgage portfolio is managed by restricting the size of each individual mortgage and the mortgage portfolio as a whole, as well as specifying the maximum loan to equity ratio and acceptable geographic locations for lending. These portfolios are monitored regularly and reviewed quarterly with the Investment Committee of the Board.

The Company limits its investment concentration in any one corporate investee or control group to 3% of general fund assets. At December 31, 2008, the largest corporate credit exposure was 2.2% of general fund assets (2007 – 2.3%) or 10.9% of total equity (2007 – 12.3%). Residential mortgages are secured by first recourse on the residential properties. The largest single mortgage balance was $332,000 (2007 – $342,000). The mortgage portfolio is comprised of single-family, owner-occupied dwellings in the greater Winnipeg area.

Policy loans are secured by the cash value that has accumulated within the individual policy.

The following table summarizes the Company's maximum exposure to credit risk on the balance sheet. The maximum credit exposure is the carrying value of the asset net of any provision for loss.

	2008	2007
	('000s)	
Bonds		
Federal	**$ 84,808**	$ 77,062
Provincial	**84,426**	62,780
Municipal	**20,000**	22,987
Corporate rated A or higher	**191,308**	208,878
Corporate rated below A	**10,187**	–
Residential mortgages – conventional	**17,252**	15,972
Residential mortgages – insured	**10,904**	12,422
Policy loans	**13,849**	13,425
Outstanding premiums	**624**	525
Investment income due and accrued	**4,208**	3,885
Other assets	**2,792**	2,836
Maximum credit risk exposure on the balance sheet	**$ 440,358**	$ 420,772

The following table provides information on the past due amounts where an impairment provision has not yet been recorded by the Company.

	Less than 90 days	Over 90 days	Total past due but not impaired
	('000s)		
Outstanding premiums	$ 614	$ 10	$ 624
Other assets	2,792	–	2,792
	$ 3,406	$ 10	$ 3,416

See note 5 for details of the credit ratings of bonds.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, equity risk and currency risk.

(i) **Interest rate risk** is the potential for financial loss arising from changes in interest rates. The Company is exposed to interest rate risk in the normal course of business. The risk exists to the extent that the cash flows from the assets supporting the liabilities do not match the policy obligations in timing and amount. The Company's exposure to future changes in interest rates is significantly reduced for many lines of business due to the practice of matching cash flows on the assets with those of the corresponding liabilities. The Company does not invest in derivative financial instruments.

To manage interest rate risk, product lines with similar liability profiles and the assets supporting those liabilities are grouped into separate funds. The Company's Investment Policy Statement outlines the asset duration of each fund to be maintained within a specified range of the duration of the fund liabilities. Techniques for measuring interest rate risk include duration analysis, cash flow analysis and yield curve sensitivity testing. Interest rate sensitivity is provided for in the actuarial liabilities for all policies, with an adequate provision to absorb moderate changes in interest rates. Interest rate risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

The approximate impact of an increase of 100 basis points in the interest yields would increase the net income of the Company by $7,559,000 (2007 – $8,200,000). The approximate impact of a decrease of 100 basis points in the interest yields would decrease the net income of the Company by $7,171,000 (2007 – $5,800,000).

(ii) **Equity risk** is the uncertainty associated with the valuation of assets arising from changes in the equity markets. To mitigate this risk, the Company's Investment Policy Statement provides for prudent investment in equity markets within clearly defined limits.

Held for trading equities are used mainly to support participating or universal life products where investment returns are passed through to the policyholders through changes in the dividend scale or the rate of return credited to the policy's cash value. For these products, changes in equity assets are largely offset by changes in actuarial liabilities.

Equity risk also exists in the Company's segregated funds as management fee income is based on the market value of the assets under administration. In addition, capital guarantees exist on our segregated fund products where the liabilities are affected by movements in the equity markets. Additional reserves may be required due to these guarantees. Overall, it is estimated that a 10% increase across all equity markets would result in a $2,236,000 increase to net income while a 10% decrease across all equity markets would result in a $2,744,000 decrease to net income.

(iii) **Currency risk** represents the risk that the Company incurs losses due to exposure to foreign currency fluctuations. As the Company only operates in Canada, it has a minimal amount of liabilities and future cash obligations denominated in any currency other than Canadian dollars. The Company has accepted limited exposure to currency risk through its Investment Policy Statement allowing restricted investment in U.S and International Equity Index Funds that will never exceed a specified portion of the Company's regulatory capital.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all its cash outflow obligations as they come due. Liquidity guidelines have been established by the Board of Directors and are set out in the Company's Investment Policy Statement. The guidelines require that a portion of the investment portfolio be in readily marketable securities that equals or exceeds policyholder obligations. Liquidity risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

Readily marketable securities include all bonds with an 'A' or better credit rating and all Canadian equities. At December 31, 2008, readily marketable securities represented 107.3% (2007 – 106.2%) of all policy liabilities.

7 Policy Liabilities

Nature of policy liabilities

Policy liabilities represent an estimate of the amount which, together with future premiums and investment income, will be sufficient to pay outstanding claims and provide for future benefits, dividends and expenses under all in force insurance and annuity contracts. Policy liabilities consist of the following:

	2008	2007
	('000s)	
Actuarial liabilities	**$ 374,889**	$ 383,361
Provision for unpaid and unreported claims	**5,637**	5,852
Policyholder amounts on deposit	**5,720**	5,606
Total policy liabilities	**$ 386,246**	$ 394,819

Actuarial liabilities

Actuarial liabilities are comprised of the following amounts for each significant line of business:

	2008	2007
	('000s)	
Individual life participating	**$ 149,212**	$ 157,863
Individual life non-participating	**65,194**	72,176
Individual annuities participating	**52,481**	49,362
Individual annuities non-participating	**91,920**	87,711
Group life and health	**16,082**	16,249
Total actuarial liabilities	**$ 374,889**	$ 383,361

Actuarial liabilities have been determined by the Appointed Actuary using accepted actuarial practice which involves the use of assumptions for such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of policy termination. The process of determining actuarial liabilities necessarily involves the risk that actual results will deviate from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results.

Each assumption is determined based on expected experience plus a margin. The margin provides for uncertainty in establishing expected experience and to allow for possible deterioration in experience. The additional reserve resulting from using assumptions which include these margins is referred to as the provision for adverse deviations. The provision will be included in future income to the extent it is not required to cover adverse experience.

The nature and method of determining the significant assumptions made in the computation of actuarial liabilities are described below.

Risk	Nature and method of determination	Risk management
Mortality	The Company is exposed to mortality risk through both group and individual policies. Estimates of future mortality rates are based on the Company's and industry experience over extended periods.	The insurability of applicants is determined in accordance with established and documented underwriting standards. Exposure to large claims is managed through the establishment of policy retention limits. Insurance amounts in excess of the retention limit on a single life are reinsured with other companies. The maximum retention for individual life insurance policies is $250,000 (2007 – $250,000) and the maximum retention for group life insurance policies is $150,000 (2007 – $150,000). The exposure to multiple claims from a single accidental cause is managed by a catastrophe reinsurance agreement. The catastrophe reinsurance covers aggregate claims in excess of $1,000,000 up to a maximum amount of $10,000,000. Claims experience (actual vs. expected) is monitored by management. This information is reported to the Board of Directors regularly.
Morbidity	The Company is exposed to significant morbidity risk through the issuance of group long term disability and extended health coverages. Estimates of future morbidity rates are based on the Company's and industry experience over extended periods.	The acceptance and rating of all health and disability applicants is determined in accordance with established and documented underwriting standards and procedures. Exposure to large claims is managed by establishing policy retention limits. Insurance amounts in excess of the retention limit on a single life are reinsured with other companies. The maximum retention for long-term disability benefits is $14,000/year and for out-of-country extended health benefits is a $100,000 per incident. Morbidity claims experience is reported to the Board of Directors regularly. Senior management regularly compares actual morbidity experience to industry studies. Claims management policies have been established and documented for all types of disability and health claims.

Risk	Nature and method of determination	Risk management
Policy termination	The termination of individual life insurance policies may expose the Company to risk. Policyholders may lapse their policies by discontinuing premium payments or requesting surrender of their policies for the cash value. Policy termination assumptions are based on Company experience augmented by industry experience.	When developing a new product or pricing an existing product, the Company carefully analyzes the amount of policy termination risk. Reinsurance is used to lessen this risk for certain plans. Company policy termination experience is monitored by senior management.
Expense	Expense assumptions reflect the projected costs of maintaining and servicing in force policies. The expenses are derived from internal cost studies projected into the future with an allowance for inflation.	Senior management reviews expense levels on a quarterly basis and approves expenditures of large amounts and the hiring of additional personnel.
Interest rate	Interest rate risk is the potential for financial losses from changes in interest rates. The risk exists to the extent that asset cash flows do not match the liability cash flows in timing and amount. The valuation process uses multiple interest scenarios. This provides a provision for changes in interest rates.	Assets are invested to provide a degree of matching the asset cash flows to the related liability cash flows. Interest rate risk is monitored by management and reported to the Investment Committee of the Board on a quarterly basis.
Stock returns	The future expected return on stocks is based on long-term historic returns of stocks. The majority of the stocks backing liabilities are for participating whole life products or universal life plans.	The dividend scale is reviewed annually. Changes in returns can be passed through to the participating policyholders. The universal life plans have index-linked stock returns where the stock market performance is passed through to the policyholders.

Assets supporting liabilities and capital and surplus

The following table shows the assets supporting liabilities for the product lines shown (including actuarial and other policy liabilities), and assets supporting capital and surplus as at December 31:

	2008						
	Bonds		Stocks				
	Held for trading	Available for sale	Held for trading	Available for sale	Mortgage loans	Other	Total
	('000s)						
Participating							
Individual life	**$108,233**	**$ –**	**$ 24,382**	**$ –**	**$ –**	**$ 16,597**	**$ 149,212**
Individual annuity	**40,452**	**–**	**–**	**–**	**11,546**	**483**	**52,481**
Non-participating							
Individual life	**62,786**	**–**	**–**	**–**	**–**	**2,408**	**65,194**
Individual annuity	**72,712**	**–**	**–**	**–**	**16,610**	**2,598**	**91,920**
Group life and health	**15,956**	**–**	**–**	**–**	**–**	**126**	**16,082**
Other, including capital and surplus	**17,335**	**73,255**	**–**	**19,568**	**–**	**8,183**	**118,341**
	$ 317,474	**$ 73,255**	**$ 24,382**	**$ 19,568**	**$ 28,156**	**$ 30,395**	**$493,230**

	2007						
	Bonds		Stocks				
	Held for trading	Available for sale	Held for trading	Available for sale	Mortgage loans	Other	Total
	('000s)						
Participating							
Individual life	$ 107,702	$ –	$ 37,071	$ –	$ –	$ 13,090	$ 157,863
Individual annuity	37,440	–	–	–	11,542	380	49,362
Non-participating							
Individual life	69,695	–	–	–	–	2,481	72,176
Individual annuity	70,117	–	–	–	16,852	742	87,711
Group life and health	16,192	–	–	–	–	57	16,249
Other, including capital and surplus	16,699	53,862	–	30,474	–	12,308	113,343
	$ 317,845	$ 53,862	$ 37,071	$ 30,474	$ 28,394	$ 29,058	$ 496,704

Change in actuarial liabilities

The change in actuarial liabilities is as follows:

	2008	2007
	('000s)	
Balance, beginning of year	**$ 383,361**	$ 374,500
Normal change		
New business	**1,613**	1,510
In force	**(8,336)**	9,153
Change in method and assumptions	**(1,749)**	(1,802)
Balance, end of year	**$ 374,889**	$ 383,361

Valuation assumptions are reviewed and updated annually. Changes in assumptions can increase or decrease actuarial liabilities. The changes in assumptions and their impact on actuarial liabilities were as follows:

	2008	2007
	('000s)	
Mortality	**$ (1,943)**	$ (2,652)
Lapse	**10**	1,073
Expenses	**30**	–
Other	**154**	(223)
	$ (1,749)	$ (1,802)

8 Reinsurance Ceded

The Company utilizes reinsurance primarily to limit the mortality or morbidity exposure to a single life. Additional amounts of mortality risk may also be reinsured where it is in the financial interest of the Company to do so. An insignificant amount of interest rate and lapse risk is reinsured. The majority (99%) of the reinsurance business is transacted with companies registered in Canada which are subject to regulation by the Office of the Superintendent of Financial Institutions Canada. All reinsurance arrangements are approved by senior management.

The retention limits or maximum exposures on insurance policies are as follows:

	2008	2007
	('000s)	
Individual Life	**$ 250**	$ 250
Group Life	**150**	150
Group Health – out of country	**100**	100
Group Disability	**14/year**	14/year

The Company also has reinsurance in place for multiple deaths resulting from a catastrophic accident. Coverage is for up to $10,000,000 (2007 – $10,000,000) of claims from a single accident.

Reinsurance ceded does not discharge the Company of its liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. A contingent liability exists should an assuming company be unable to meet its obligations. At December 31, 2008 the Company had outstanding balances from reinsurers totalling $1,634,000 (2007 – $1,784,000). All recoverable amounts are with reinsurers with an A.M. Best credit rating of A+ (Superior).

The amounts shown in the financial statements are net of the following amounts related to reinsurance ceded:

	2008	2007
	('000s)	
Premiums	**$ 10,715**	$ 8,758
Claims	**7,247**	6,219
Actuarial liabilities	**44,184**	46,165

9 Income Taxes

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2008	2007
	('000s)	
Earnings before income taxes	**$ 3,947**	$ 9,522
Combined statutory tax rate	**31.58%**	34.87%
Tax payable based on statutory tax rate	**1,247**	3,320
Effect of:		
Permanent differences	**(440)**	(645)
Future income tax rate changes	**(348)**	(565)
Capital taxes	**(95)**	95
Other	**(15)**	15
	$ 349	$ 2,220
Provision for income taxes		
Current	**$ 1,705**	$ 34
Future	**(1,356)**	2,186
	$ 349	$ 2,220

Future income tax assets and liabilities consist of temporary differences between the accounting and tax basis of assets and liabilities as follows:

	2008	2007
	('000s)	
Future income tax liabilities		
Invested assets	**$ (2,320)**	$ 8,690
Policy liabilities	**2,678**	(4,590)
Deferred gains on portfolio investments	**2,527**	3,660
Other liabilities	**–**	(2)
	$ 2,885	$ 7,758

Income taxes included in OCI

Other comprehensive income included on the statement of comprehensive income is presented net of income taxes. The income tax amounts included in each component of other comprehensive income are as follows:

	2008	2007
	('000s)	
Unrealized losses on available-for-sale assets	**$ 4,024**	$ 542
Reclassifications to net income for available-for-sale assets	**(101)**	765
Total income taxes benefit included in OCI	**$ 3,923**	$ 1,307

10 Segregated Funds

The net asset value of the Segregated Funds, for which the Company is the issuer, totalled $103,410,000 (2007 – $140,321,000) at December 31, 2008. These Funds act as an investment vehicle for policyholders within individual savings plans. Segregated Fund policyholders bear the full investment risk of, and receive all the benefits from, the assets of the Funds. Investments held for Segregated Funds are carried at market value. Segregated Funds are presented separately in the Company's financial statements for information purposes and do not form part of the General Funds of the Company.

11 Share Capital

Authorized – Unlimited number of common shares without par value

Issued and outstanding – 26,500 (2007 – 11,500) common shares, all of which have been issued for cash to The Wawanesa Mutual Insurance Company. During the year, 15,000 shares were issued to The Wawanesa Mutual Insurance Company for $15,000,000.

12 Transfer from Participating Account to Shareholder

From time to time, the Board of Directors sets apart a portion of participating policyholders' equity as safe and proper for distribution as dividends or bonuses to participating policyholders. Of the amount set apart, the shareholder is entitled to a portion as permitted by governing statute.

The shareholder is entitled to 10% of the amounts set apart for these policies on an annual basis, excluding amounts as described below.

The Company converted from mutual to stock form of ownership on October 1, 1993. The plan of conversion includes a restriction on transfers related to participating life insurance policies issued prior to October 1, 1993. No transfers may be made on this business prior to October 1, 2008.

13 Capital Management

The Company's capital management objective is to exceed regulatory and internal capital targets to ensure that a strong financial position is maintained for the safety of policyholders and to provide a basis for confidence in the Company by the shareholder, policyholders, reinsurers, brokers and other interested parties.

OSFI has established a capital adequacy measurement for life insurances companies incorporated under the Insurance Companies Act known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). OSFI expects life insurance companies to maintain a minimum capital ratio of 150%. The Board of Directors has specified a desirable, internal capital target of 200%.

The responsibility for capital management has been assigned by the Board of Directors to management. Management has established policies and procedures designed to identify, measure and report all material risks. Management reports to the Board of Directors changes in the capital ratio and the reason for the change, projections of the MCCSR ratio for 5 years under a variety of scenarios and general observations regarding future capital adequacy.

The Company defines capital in accordance with the Capital Available components set out in the MCCSR. The main components of Capital Available consist of share capital, retained earnings and policyholders' account and accumulated other comprehensive income. The Company's Capital Required is determined by its risk profile and includes an assessment for asset default risk, market risk, insurance risk and change in interest rate risk. The capital ratio is calculated by dividing Capital Available by Capital Required.

	2008	2007
	('000s)	
Capital available		
Share capital	**$ 26,500**	$ 11,500
Retained earnings	**48,520**	43,642
Policyholders' account	**28,202**	29,482
Other	**(600)**	7,065
	$ 102,622	$ 91,689
Capital required		
Asset default and market risks	**$ 15,254**	$ 10,500
Insurance risks	**22,552**	20,605
Interest rate risks	**4,899**	6,588
Other	**–**	(639)
	$ 42,705	$ 37,054
Ratio	**240%**	247%

14 Related Party Transactions

The Company has the following transactions with its parent Company:

- The Company reimburses the cost of expenses paid on its behalf or shared with the parent totalling $11,593,000 (2007 – $11,057,000).
- The parent Company pays commissions on behalf of its brokers to investment accounts maintained by the Company of $11,275,000 (2007 – $9,039,000).
- The parent Company purchases group employee benefits from the Company at a cost of $5,121,000 (2007 – $4,594,000).

Balances between the Company and its parent are settled on a regular basis and the outstanding amount is immaterial at December 31, 2008 and 2007.

15 Segmented Information

	2008				
	Individual life	Individual annuity	Group life and health	Capital and surplus	Total
			('000s)		
Premium income	**$ 36,087**	**$ 27,557**	**$ 24,401**	**$ –**	**$ 88,045**
Investment income (loss)	**(21,350)**	**5,530**	**496**	**3,960**	**(11,364)**
Income taxes	**(131)**	**(46)**	**(190)**	**716**	**349**
Net income (loss)	**(267)**	**(146)**	**769**	**3,242**	**3,598**
Other comprehensive loss	**–**	**–**	**–**	**(9,802)**	**(9,802)**
Total comprehensive income (loss)	**(267)**	**(146)**	**769**	**(6,560)**	**(6,204)**

	2007				
	Individual life	Individual annuity	Group life and health	Capital and surplus	Total
			('000s)		
Premium income	$ 33,344	$ 29,070	$ 23,456	$ –	$ 85,870
Investment income	4,771	5,461	542	6,493	17,267
Income taxes	(106)	914	340	1,072	2,220
Net income	(387)	1,187	1,080	5,422	7,302
Other comprehensive loss	–	–	–	(2,441)	(2,441)
Total comprehensive income (loss)	(387)	1,187	1,080	2,981	4,861

16 Future Impact of Recently Issued Accounting Standards

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Although the CICA will permit early adoption of IFRS, Federally Regulated Financial Institutions have been precluded from early adoption by OSFI. The Company will be required to begin reporting under IFRS for the quarter ending March 31, 2011 and will be required to prepare an opening balance sheet and provide information that conforms to IFRS for comparative periods presented.

While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

17 Comparative figures

Certain of the prior year's figures have been restated for comparative purposes.

DIRECTORS

B. W. Harrison 1,2,3,4
Chairman of the Board

R. R. Bracken 2,3

D. C. Crewson 1,4

G. J. Hanson 3,4

K. L. Matchett 1,4

J. S. McCallum 3,4

K. E. McCrea

M. E. Northey 1,2

D. G. Unruh 1,2

S. M. Van De Velde 2,3,4

1. Member of the Audit Committee
2. Member of the Conduct Review and Corporate Governance Committee
3. Member of the Investment Committee
4. Member of the Human Resources Committee

Standing (L to R): D. C. Crewson, D. G. Unruh, M. E. Northey, G. J. Hanson, J. S. McCallum, K. L. Matchett, S. M. Van De Velde, R. R. Bracken,
Seated (L to R): B. W. Harrison, K. E. McCrea

Wawanesa

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